

Message Text

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C O N F I D E N T I A L QUITO 5602

E.O. 11652: GDS

TAGS: ENRG EC

SUBJ: TEXACO-GULF AND SUPREME COUNCIL REACH AGREEMENT ON REVISION
OF DECREE 285

REF: QUITO 5391

1. SUMMARY: LUMPKIN AND SHIELDS REPORTED TO ME AUGUST 5 THAT TEXACO AND GULF HAD REACHED AGREEMENT WITH THE SUPREME COUNCIL ON REVISION OF DECREE 285. ALTHOUGH THEY ARE NOT OPTIMISTIC ABOUT CHANCES OF ACTUALLY IMPLEMENTING AGREEMENT WHILE VARGAS REMAINS IN OFFICE, LUMPKIN INFORMED THE SUPREME COUNCIL THAT GULF WAS SUSPENDING ACTION ON THE "RUTH" SUIT FOR THIRTY DAYS. I BELIEVE LUMPKIN WILL ALSO RECOMMEND RESUMPTION OF DEPOSITS. END SUMMARY.

2. ROBERT SHIELDS, TEXACO VICE PRESIDENT, AND TOM LUMPKIN, GULF VICE PRESIDENT, CALLED ON ME AUGUST 4 AND 5 TO REPORT RESULTS OF MEETINGS WITH SUPREME COUNCIL. SHIELDS AND LUMPKIN MET THREE TIMES WITH MEMBERS OF THE SUPREME COUNCIL, MINISTER OF NATURAL RESOURCES RENE VARGAS, MINISTER OF DEFENSE ANDRES ARRATA, AND ATTORNEY GENERAL MARIO ERAZO DEL CASTILLO. MINISTER OF FINANCE CESAR ROBALINO ATTENDED THE FIRST MEETING AND WAS LATER REPRESENTED BY SUBSECRETARY OF FINANCE RUAL JARAMILLO. LUMPKIN AND SHIELDS MET PRIVATELY WITH ROBALINO AUGUST 3, AND LUMPKIN AND TEXACO'S MAX CRAWFORD MET PRIVATELY WITH POVEDA EVENING OF AUGUST 4.

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SHIELDS COMMENTED THAT HE WAS CONVINCED THAT POVEDA ALWAYS

FAVORED MAKING A STEELEMENT AND DURAN SEEMED TO SOFTEN HIS PREVIOUS HARD LINE RE DECISION 285 IN THE FINAL MEETING. SHIELDS ALSO NOTED THAT MINISTER OF DEFENSE ARRATA SEEMED SYMPATHETIC TO TEXACO-GULF COMPLAINTS.

3. IN CONVERSATION WITH LUMPKIN AND SHIELDS ON AUGUST 4, I EMPHASIZED THAT RECENT PUBLICITY REGARDING RUTH SUIT AND POSSIBLE LEAK OF GULF'S DEPOSIT SUSPENSION COULD BUILD UP PUBLIC INDIGNATION TO THE POINT THAT THE GOE WOULD FEEL FORCED TO TAKE RETALIATORY ACTION. IT CERTAINLY WOULD MAKE IT VERY DIFFICULT FOR POVEDA TO REVISE 285 MUCH LESS REMOVE VARGAS. LUMPKIN REPLIED THAT SUCH TACTICS "WERE THE ONLY WAY TO GET THE ATTENTION OF THE GOE SINCE ITS ONLY INTEREST WAS MONEY." I POINTED OUT THAT LUMPKIN HAD ALREADY BEEN SUCCESSFUL IN GETTING GOE ATTENTION AND COULD NOW AFFORD TO EASE THE PRESSURE AND ALLOW POVEDA TO TAKE MEASURES TO CORRECT THE SITUATION.

4. IN FINAL MEETING AUGUST 5, THE SUPREME COUNCIL AND TEXACO-GULF AGREED TO A COMPROMISE PROPOSAL TO ELIMINATE ALL RETROACTIVE CLAIMS OF DECISION 285 AND TO STIPULATE A CEPE PURCHASE AT COST OF PREVIOUS OVERLIFTINGS, INCLUDING THE CARGO OF THE "RUTH" TANKER. (SHIELDS IS SATISFIED THAT THIS AGREEMENT WILL ELIMINATE THE THREAT OF A GOE TAX CHARGE ON 1975 PRODUCTION SHORTFALL.) THE MINISTER OF NATURAL RESOURCES WOULD THEN ISSUE IMPLEMENTING REGULATIONS FOR 285 TO PROVIDE FOR CEPE'S INCLUSION IN THE TEXACO-GULF OFFTAKE AGREEMENT, THUS REDUCING THE FEARS OF TEXACO-GULF ABOUT FUTURE IMPOSITION OF UNREALISTIC PRODUCTION LEVELS.

5. LUMPKIN ALSO NOTIFIED THE SUPREME COUNCIL AUGUST 5 THAT HE HAD INSTRUCTED GULF ATTORNEYS TO SUSPEND ACTION ON THE "RUTH" SUIT FOR THIRTY DAYS. HE ALSO TOLD THE SUPREME COUNCIL HE WOULD DISCUSS THE DEPOSIT SUSPENSION WITH GULF PRINCIPALS "TO SEE WHAT COULD BE DONE." LUMPKIN SAID HE HAD ANTICIPATED A POSITIVE RESPONSE TO THESE OLIVE BRANCHES FROM THE SUPREME COUNCIL--SINCE POVEDA HAD ASKED HIM FOR A "BREATHING PERIOD" OF THREE WEEKS--BUT DURAN AND VARGAS COMPLAINED AT LENGTH ABOUT FAILURE OF BROKER MARC RICH TO PAY FOR "RUT" CARGO. LUMPKIN REPLIED THAT MARC RICH WAS CONFIDENTIAL

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NOT A PARTY TO THE SUIT AND GULF WAS IN NO WAY RESPONSIBLE FOR ITS PAYMENTS TO CEPE. LUMPKIN OFFERED TO PROVIDE GOE WITH DOCUMENTARY EVIDENCE FROM CALIFORNIA COURT TO SHOW THAT ITS SUIT AGAINST ARCO IN NO WAY PREVENTS RICH FROM PAYING CEPE.

6. ALTHOUGH SHIELDS AND LUMPING ARE IN PRINCIPLE SATISFIED WITH THE AGREEMENT, BOTH BELIEVE THAT VARGAS WILL TRY TO SABOTAGE IT AND REFUSE TO PAY TEXACO-GULF FOR PREVIOUS

CEPE OVERLIFTINGS. SHIELDS COMMENTED THAT HE COULD EASILY REACH AN AGREEMENT WITH THE GOE ON ALL OUTSTANDING ISSUES IF VARGAS WERE TO LEAVE OFFICE. SHIELDS WILL RETURN FOR FURTHER NEGOTIATIONS NEXT WEEK ALTHOUGH LOCAL TEXACO AND GULF REPRESENTATIVES WILL TRY TO WORK OUT DETAILS OF AGREEMENT IN THE MEANTIME.

7. COMMENT: EMBASSY IS INCLINED TO AGREE WITH SHIELDS AND LUMPKIN THAT VARGAS WILL TRY TO BACKTRACK FROM THIS AGREEMENT IN THE COURSE OF NEGOTIATING THE DETAILS. FOR THE TIME BEING, HOWEVER, AN OPEN CLASH BETWEEN THE GOE AND THE COMPANIES SEEMS TO HAVE BEEN AVERTED. UNLESS VARGAS IS REMOVED FROM OFFICE, HOWEVER, WE FORESEE CONTINUED CONFLICT BETWEEN THE CONSORTIUM AND THE GOVERNMENT. THE EVENTS OF THE LAST TWO WEEKS MAY HAVE HELPED VARGAS TO SURVIVE BECAUSE PUBLIC INDIGNATION OVER THE NEWS OF THE RUTH SUIT MAKES IT DIFFICULT FOR THE COUNCIL TO JETTISON ITS NATIONALISTIC MINISTER OF NATURAL RESOURCES. I AM GRATIFIED THAT LUMPKIN HAS AGREED TO SUSPEND "RUTH" SUIT AND APPEARS WILLING TO RECONSIDER DEPOSIT SUSPENSION FOR THE TIME BEING.
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